

Environmental market creation: saviour or oversell?*

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Abstract. In recent years considerable attention has been paid to the notion of ‘market creation’ for the conservation of environmental assets. Market creation establishes a market in the external benefit or cost in question (e.g. biodiversity or pollution reduction) and leaves the relevant parties to adjust their behaviour accordingly. While most attention has been paid to market creation through tradable permits and taxes (the ‘polluter-pays’), it is less easy to secure a perspective on ‘beneficiary-pays’ initiatives. Both polluter-pays and beneficiary-pays initiatives are examples of modified Coaseian bargains in which governments intervene in the bargains to lower transactions costs, establish property rights, deal with public goods issues, or act on behalf of disadvantaged groups. This paper reviews four major initiatives in this respect – debt-for-nature swaps, bioprospecting and the Global Environment Facility at the global level, and the Costa Rican Forest Law at the local level. It finds that while there is much to applaud in initiatives in these new markets, serious questions remain about the modest flows of funds associated with such ‘global bargains’, and the extent to which they secure environmental improvements relative to the baseline of business-as-usual.

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